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Bulgaria

Grain and Feed

Grains and Oilseeds Market Update

2008

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Report Highlights:

Bulgaria had record high crop of grains and oilseeds this year (with the exception of corn) and has already exported unusually high quantities of wheat and barley. However, today producers face serious logistical, financial, and demand-related problems. While these challenges are not likely to have major impact on planted areas for fall crops, there are already voices fearing that further deepening of these issues will seriously harm corn and sunflower spring planting in 2009.

Includes PSD Changes: No
Includes Trade Matrix: No
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Supply of grains and oilseeds in MY08/09

Harvest of all grain, feed and oilseeds crops, with exception of some corn fields, is considered completed. Current MinAg data for MY08/09 is as follows:

Bulgaria MY2008/2009 MinAg production data as of October, 2008				
	Planted area, HA	Harvested area, HA	Production	Average yield, MT/HA
Wheat	1,030,000	1,023,000	4,463,000	4.36 *
Barley	232,500	225,400	911,000	4.04
- winter barley	204,400	204,400	834,000	4.08
- spring barley	28,100	25,412	77,000	3.03
Rye	7,070	6,257	14,174	2.27
Triticale	5,928	5,460	18,657	3.42
Corn*	330,000	330,000	1,300,000	3.93
Sunflower*	680,000	670,000	1,200,000	1.79
Rapeseeds	93,700	87,803	235,000	2.68
Note*: FAS/Sofia estimates for corn and sunflower, subject of further revisions, official data is not publicly published yet.				

Wheat

The National Grain Agency analyzed the quality of 1,426 MT or about 35% of total wheat crop. The feed quality was prevailing. Samples show that about 35% or 1.5-1.6 MMT of wheat is of milling quality and 65% is feed wheat.

Corn

Corn harvest is not completed yet. Reportedly, harvested areas vary from 45% to 85% (65% on average) for different regions. Often, pressured by logistical problems and falling prices, farmers prefer to leave corn on the field until next spring. Reported average yields vary from 3.4 MT/HA to 5.3 MT/HA. Official production estimates are not available at this point. Industry estimates vary from 1.0 MMT to 1.3 MMT.

Sunflower

Sunflower harvest was over in end-October but official government estimates are not publicly available yet. According to trade sources estimates, the crop is about 1.1 MMT, however, working level officials have higher estimates at about 1.2 MMT-1.25 MMT, due to unusually high average yields. This is a record crop for the last 15 years.

Fall planting

Wheat and barely: Wheat and barley sowing conditions have been excellent with abundant rains in September which improved the soil moisture after 2 months of drought. At the same time, rainy weather slowed the pace of the planting campaign by a week. A more serious challenge is the increasing input cost (especially fuel and fertilizers), for example, nitrogenous fertilizers price has doubled price for a year, and this may lead to lower usage, deteriorated crop quality and lower yields. In addition, the long-expected EU funds for investment in farm equipment (under Rural Development Program) is not in full operation and farmers could not make planned purchases.

At present, wheat planted area is expected to be at about the same level as in MY08/09, at 1.0 million HA, and for barley slightly lower than in MY08/09, at 200,000 HA of winter barley and 20,000 HA of spring barley. Planting is likely to be over by early November.

Rapeseeds: Sowing conditions were not very favorable for rapeseeds due to difficult access to fields and excessive rains in September and early October. Thus, farmers missed to plan in the optimum time and some preferred not to plant at all. This may lead to lower planted area at around 90,000 HA or below (a decline of about 10% or more), and some shift to wheat.

Although considered premature to debate about the upcoming spring planting in 2009, there are already analyses and fears that the current economic slowdown and financial recession will have a negative impact on 2009 farmers' plans. High and rising input cost, combined with sharply declining commodity prices, lack of external and domestic demand, difficult access to credit (which recently became also more expensive), logistical problems, and lack of efficient domestic support, all raise questions about farmers' behavior in 2009.

While these issues are not yet affecting fall planting areas since farmers still have enough resources (although lower input use is very likely), it is not clear what will be producers' decision in 5-6 months, especially if commodity prices continue to dive. This may seriously affect the planted areas under spring crops in 2009. Some farmers, especially in less productive areas, have already indicated that it might be more beneficial for them to not plant at all and have a zero year than to undertake highly risky production operations.

Trade

Exports

Wheat: Wheat exports to date were around 1.3 MMT, record high for such a short period of time. These exports equal annual exports from previous years and prove the increased Bulgaria's export capacity although no sizable investment has been made in port infrastructure. Most of exported wheat is characterized as lower quality milling wheat or high quality feed wheat, with good protein level (around 11.0) but with low W. Wheat was destined mainly to non-EU destinations (840,000 MT) vs. 440,000 MT for the EU. According to trade, most if not all wheat exported to Romania (112,000 MT) was, in fact, exported out of the EU, mainly to Pakistan. Traders estimate wheat export surplus at 2.0 MMT and above depending on the logistical capacity of Bulgarian ports and export demand.

Over the last 20 days, wheat market is silent. Exports to Pakistan provided excellent opportunities for farmers and traders but also raised farmers' expectations. After this destination became inactive, farmers stopped selling due to currently declining prices. In addition, regional competition from Russia and Ukraine may force local producers to sell surplus wheat as feed quality wheat which will further affect prices and their income.

Barley: Barley trade has been active in post-harvest time but not recently due to lack of export demand. Exports to date are 360,000 MT of which 110,000 MT to EU countries and 250,000 to non-EU destinations, such as Saudi Arabia (143,000 MT) and Syria (72,000 MT). Similar to wheat, barley exports are at and above previous annual export levels. According to trade, there are still up to 150,000 MT of export surplus.

Corn: Corn is not actively traded since farmers refuse to sell at current low prices. Due to storage and logistical issues, some producers prolong harvest and may leave fields not harvested until the spring. The new corn crop exports started in September and amount at 50,000 MT of which 18,000 to the EU and 32,000 to non-EU destinations, such as Syria. In

July and August, there were still exports of corn from the 2007 crop, about 8,500 MT and imports of about 15,500 MT.

Due to recent Greek government decision to test 100% imported Romanian and Bulgarian corn for GM content, Bulgarian corn is not likely to be traded to this destination soon, however, it will not have a major impact on overall trade. To date, Bulgaria exported only about 1,000 MT to Greece (see the trade table below).

Sunflower: Sunflower seeds trade has been sluggish with only 70,000 MT exported, mainly to the EU (Spain and France). Prices are falling quickly and although farmers are concerned about huge stocks being accumulated, they still prefer to wait for better prices later in the crop year. Current import duty imposed by Turkey is the main reason for weak export demand. Rumors on the market say that the duty may not be eliminated soon and this may further contribute to farmers' problems. Bleak prospects on the market at present may lead to accumulation of record high stocks and logistical/storage challenges.

Rapeseeds: Rapeseeds trade was active in post-harvest time but not recently due to falling prices. Exports to date were at 100,000 MT, about half of the crop, mainly to the EU. According to trade, most of rapeseeds exports to Romania (34,000 MT) has a final destination in Belgium and Holland.

Local market

Huge local and regional supply, combined with pessimistic expectations for export demand, have a strong impact on all grain and oilseeds prices, especially on the feed wheat and sunflower markets. Subsidies for storage of wheat which used to exist in pre-accession time are not available any more. Lack of sufficient storage facilities, overloaded ports, tougher competition, more difficult access to credit, increasing input cost, and vague future of local national domestic support, confuse and often paralyze many producers who are challenged to take difficult decisions in very unusual situation leading to "wait and see" strategy.

Market prices (as of October 22) at commodity exchanges and/or reported by traders:

Wheat- milling wheat 120 Euro/MT; feed wheat -110 Euro/MT

Corn – 108 Euro/MT

Barley – feed barley – 115 Euro/MT

Sunflower – 215 Euro/MT

Intervention

The State Reserve announced a purchase of total 46,600 MT of wheat for refilling of strategic reserves and plans to increase its purchases to 85,000 MT or even up to 150,000 MT. It is not known at what prices the State Reserve will procure wheat but farmers hope that it will activate sales and push prices upward. According to traders, for the first time the State Reserve might be willing to pay higher than market prices, reportedly at 115-140 Euro/MT. The first procured quantities were reportedly bought at 140 Euro/MT (24,600 MT) and at 130 Euro/MT (20,000 MT).

Domestic support

The Association of grain producers has appealed to the GOB to be certain to provide already committed 147 million leva (75 million Euro) leva as national co-funding in domestic support under direct payment schemes (per a rate of 51.9 leva/HA, 27 Euro/HA). This payment is on

the top of already paid 160 leva/HA (80 Euro/HA) from EU funds under SAPS. The amount has to be paid to farmers after October 2008.

The above commitment was made in late 2007 when the Parliament voted annual 2008 budget. At that time, the GOB promised to allocate these funds if there is sufficient budget surplus by the fall of 2008. The surplus in 2008 budget exceeded the expectations, however, at a recent distribution of the budget surplus, reportedly, no funds were obligated for the grain producers. For this reason, grain farmers warned the GOB to expect massive farm protests.

The same Association also requested 378 million leva (194 million Euro) to be allocated in the 2009 budget again as national co-funding. This amount was also committed by the ex AgMinister earlier in 2008 in a special memorandum with the Association. The allocation is record high and represents another burden to the budget which has already incorporated dairy farmers' requests for additional domestic support, under the pressure of mass street protests. If this support is approved, this will represent a subsidy of 90 leva/HA or 45 Euro/HA, in addition to the EU SAPS support. According to the Association, if the additional funds are not approved, the level of direct payments in Bulgaria will be at 35% of the EU-15 average, provided that funds are approved, then this level will be increased to 55%-60%. As of today, the most likely scenario is a subsidy of 70 leva/HA or 35 Euro/HA although these speculations remain unclear pending a definite political decision.

From August 5 to September 15, farmers could access 50 Euro/HA state aid for MY2007/2008, total 12 million Euro, for corn and sunflower. This was a compensation for 2007 drought approved by the EC (554/2007/EC) on October 17, 2007.

Credit programs

The MinAg announced a release of a new credit line at 11 million Euros to support wheat planting in MY2009/2010. Credit can be used to purchase planting seeds (6.5 million Euro) and fertilizers (4.5 million Euro). Eligible farmers can not use more than 65,000 Euro of credit resources and/or 30 Euro/HA for both types of inputs. Credits are annual and at 3% interest.

Policy

In the summer, the Competition Protection Commission (CPC) imposed several fines on industry organizations in the food industry for cartel agreements. Vegetable oil producers, bakers, poultry and dairy industries were all blamed in cartel agreements aiming artificial price increases. Industry groups protested these decisions, and along with independent analysts described this policy as highly politicized and influenced by the current shaky political situation. For many experts, CPC actions were interpreted as an effort to punish the food industry for government inability to cope with raising food prices and inflation; as well as to soften social tension.

In early October, the MinAg accepted a new regulation for improved management of public and private grain warehouses. The by-law will allow for traceability of grains from producers to storage entities and processors; will introduce monthly instead of quarterly stocks reports; and will establish unified information database for all grain warehouses. These changes are expected to facilitate further trade in warehouse receipts and are likely to stimulate public warehouse system.

Table #1. Bulgarian exports of grain and feed in MY08/09, from July 1 to October 25, 2008, in MT

Bulgarian exports of grain and feed in MY08/09, from July 1 to October 25, 2008, in MT					
Wheat		Barley		Corn	
EU		EU		EU	
Spain	274,267	Greece	23,420	Spain	5,161
Romania	112,068	Romania	64,215	Cyprus	2,349
Cyprus	10,721	Spain	11,502	Romania	3,100
Greece	31,433	Cyprus	8,258	Greece	1,090
Italy	8,104	Germany	2,364	Malta	3,250
Germany	1,634	Austria	862	Italy	3,201
Total EU	438,227	Total EU	110,621	Total EU	18,101
Non-EU		Non-EU		Non-EU	
Pakistan	385,394	Saudi Arabia	143,408	Turkey	1,113
Djibouti	162,009	Syria	72,435	Syria	26,204
Sudan	40,692	Israel	9,680	Lebanon	4,277
Afghanistan	40,279	Tunisia	8,322		
Israel	33,025	Turkey	7,725		
Libya	28,263	Libya	6,751		
Syria	24,250				
Tunisia	16,390				
Madagascar	17,677				
Egypt	17,660				
Kosovo	10,150				
Lebanon	12,682				
Morocco	15,016				
Algeria	13,029				
Turkey	6,306				
Albania	3,706				
Vietnam	4,420				
Other	9,840				
Total	1,279,015	Total	358,942	Total	49,745
Source: Unofficial, industry data					

Table #2. Bulgarian exports of oilseeds in MY08/09, from July 1 to October 25, 2008, in MT

Bulgarian exports of oilseeds in MY08/09, from July 1 to October 25, 2008, in MT			
Rapeseeds		Sunflower seeds	
EU		EU	
Romania	33,994	Spain	36,956
Germany	4,995	Austria	2,931
France	15,121	France	14,850
The Netherlands	10,119		
Belgium	14,128		
Other	4,183		
Total EU	82,540	Total EU	54,737
Non-EU		Non-EU	
Pakistan	7,813	Turkey	10,738
Turkey	8,000	Syria	3,990
Total	98,353	Total	69,465
Source: Unofficial, industry data			